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# China Apparel in Textiles World Value Chains

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*Abstract:* This paper deals with textiles world value chains. It begins by discussing the economic situation of Chinese garment industry followed by the analytic methodology used to examine the issue. Using data from interviews and observations visiting factories in China and other countries we show how private Guangdong entrepreneurs started Chinese garment manufacturing. Lacking in experience in consumer markets, in designing, original equipment manufacturing was the route Chinese firms took to expand into garment manufacturing. Low wages and low margin of profits became their original source of competitiveness and expanding shares in global market sales. The origin also saw little direct support from both national and local government policies, though little barriers were erected to restrict the growth of garment firms. Although China has managed to grab a huge slice of the world market in garment sales, it continues to specialize in the low value added segments of value chains. The paper finishes with options Chinese garment entrepreneurs have to deepen their participation in garment value chains.

*Keywords:* China, Apparel, Global Values Chains, Labour Conditions

*JEL Classifications:*

China's industrial take-off surprised economists, but it has lasted now for twenty years with the industrial growth rate still higher than 10%. China has changed scales. China has become richer, and the world has too. The pollution has increased in China and all over the world. But is it possible to take stock of this growth that has transformed the industrial landscape of the world as a whole. The size of the country, one-fifth of the world population, the force, the variety and the dynamism of its economy make an appraisal difficult, and there are nevertheless winners and losers. Losers are first of all forecasters. No one had anticipated China's take-off that happened while researchers, included me, and were driven to despair to see an under-developed country win an autonomous industrial take-off. Everyone knows that fortunes have appeared in China, everyone also knows that factories have been closed in Europe apparently due to competitions from China. Does China's happiness build on our unhappiness? It is true that things are connected, but the links are more complex than they seem. I'll set out to make a review of the situation by taking apparel industry.

The clothing industry is primarily a labor-intensive industry. There are about twenty years; it represented a substantial proportion of the workforce in most countries of the world.

However, the past twenty years, these jobs have largely been deserted in the high-wage countries. This phenomenon has accelerated for a tendency for Western brands to relocate their own factories, preferring to keep their leaves to move plants.

The Chinese industry is therefore seen as a threat to other industries in the world clothing industry. We can consider that this threat is less in countries like Northern Europe, Japan or the United States, where it produces virtually no more cheap clothes. Such a manufacturing technology reached a stage that economists call mature; it is that in all countries we can easily learn and manufacture clothes of medium quality. China has built a brand in this game because it has the lowest labor costs, and it has no difficulties to increase production quickly if necessary.

Thus a substantial part of the clothing in the world is manufactured in China. The rise of productivity of Chinese clothing has been so strong that the most developed countries have requested the introduction of protectionist measures to protect their employees, or at least to give a little time to convert. This went through various measures such as prosecution for dumping, higher customs taxes or the establishment of quotas on certain products for some years. The quotas were the most effective even if the Chinese manufacturers succeed to export more than we gave them the right. Taking advantage of Chinese difficulties in applying the rules of the World Trade Organization (WTO), quotas have been extended several times before disappearing. If Europe and the United States are protected against imports of Chinese clothing, this does not mean that China was a good case. In fact, these are often the European and American companies who are responsible for imports of Chinese clothing in their own countries.

We began to realize that the price paid to Chinese enterprises were very low. The companies from Western countries are making much larger margins than those of their suppliers who cover always after the lowest price. Design seems the main problem. You have to know the wished design to sell on the western market. And Chinese companies apparently are unable to find designs that will enable them to increase their margins.

To sum up, European and American countries lost their jobs because of Chinese products paid less by the same European and American countries. And even the same Chinese plants have seen their jobs threatened by neighboring countries with even lower wages. Even before the financial crisis, from August 2008, we found that Chinese clothing of many manufacturers slowed sharply and cut their workers for lack of order. What was happening?

## Chinese Apparel Industry Challenge

The Chinese apparel industry is facing a double challenge:

1 - Either to remain a **low cost** base in the international value chain and keeping an advantage in using low wage advantages in labor-intensive industries (textiles) with a double threat: not being able to command the advantage it may have, as orders, decision-making concerning quality, volume, prices are kept by Western companies near final consumers on the one hand. On the other hand, Western companies can look for other low cost advantage Asian countries or favor near shoring strategies by relocating businesses in closer locations (as North Africa and Central East Europe).

2 – or going on the value chain at home, with **more capital intensive and more qualified labors** could give an advantage to Chinese companies, controlling the quality, adding **more value** to the products, changing its position in the value chain but with the obligation to find new markets, to set up new distribution channels and to keep its new competitive advantage (productivity, quality) both on domestic and international markets.

It is therefore obvious that the Chinese clothing cannot count on revenues that have enabled a dramatic off to maintain a competitive industry. If wages and costs of Chinese begin to mount, it can be considered as evidence of success, but to maintain this success must rely on new measures. We have an opportunity to visit many owners of Chinese plants who have opened their doors and their accounts in order to get our suggestions to maintain their growth. We saw the factories operating and managed by the same family who had created. If these plants have more than a thousand employees, their machines are often old; the premises do not usually belong to them. The result is that despite the appearance of a facility, the investment capacity is low. Managers use to neglect the organization improvement and the management of human resources. They run after the score and appear to find no difficulty whether to expand their factory or hire new workers, or managers.

When you look at the business, we know that the factory often has very little direct contact with customers. External agents or intermediaries who are beyond the control of the plant often approach these. Foreign customers often send a garment designed and manufactured by them and ask the factory to achieve the most accurate copy possible, and the decline in various sizes. If the copy is good, the customer orders with very little discussion on the price because they know their competitors.

Several local authorities in Cantonese districts have found a way to encourage the take-off of an export industrial that we call the "same same clusters". This is to identify manufacturers that have some success and to allow any manufacturer who is willing to do the same to settle next to the first copy to a maximum of 100 meters. A few years later, these same authorities have established B 2 B market

in the same place. This has an attractive effect on customers. They soon realized that in these markets, they could be sure to buy all the products they want at the lowest prices on the market. This staging of a competition between local producers facilitated the industrial take-off, because it reduces the cost and difficulty of entry. But it came at the expense of investment capacity of these same companies. Therefore, there is a crisis in the industry workforce in China. It must find new ways if it wants to continue its climb, or just keep at it has reached. We propose a specific analysis of Chinese industry of the clothing to understand the situation it is and the ways that are open or not.

## **Methodology**

For this article, the groundwork is constituted by our systematic observation of the delta of the Pearl River (China region of Guangdong) in the context of research on the industrial development of this region. For that I benefited from the support of a team of Chinese researchers and also French and Latin American researchers, a team that finally established in 2000 a laboratory of the Sun Yatsen University in Canton, of which I took over the French management. This management of a Chinese university laboratory by a European searcher is unique; it constitutes a remarkable basis of support for studying the local economy. Thus, I benefit from the work of French and Chinese academics that have lead to my accumulating information on the Canton industrial environment. Since 1989, I have travelled through the delta visiting the factories that have multiplied there. I regularly meet Chinese private entrepreneurs either during investigations or for consulting operations. Each time I ask for information on their origin and their training. I recover this information with that which I obtain in reading the research work

Unfortunately it is not possible to find reliable statistics, the category of “private industrial owners” not appearing clearly in the Chinese statistics that mix without restraint the forms of ownership. On these two last years, I managed a research project on innovation abilities of Chinese factories involving researchers from Lyon3, IRD, Paris5, IRD, Euromed Marseille, Guangzhou SUN Yatsen University, Beijing Social Science Academy, Beijing Ministry of Science and Technology

At the concrete level, the analysis of apparel value chain started from identifying Chinese factories producing these products. We traced the process of each product from upstream (idea, market research, product decision, design, R&D, etc.) to downstream (manufacturing, distribution, retailing and services, etc.). We focused on the interactions and relations among the designers, multinationals, local producers, and final users around the circulation of the specific product. For each actor, including the Chinese companies (which are often only factories), we tried to find out which other actors (i.e. other factories or companies) could replace it and how to understand how these actors are included in the value chain. We figured some alternative value chains of the product.

This kind of value chain tracing can bring the following results:

- A clear cartography of value chains in textile industries across European, American and Chinese companies. Alternative value chains of automobile and textile industries across China and Europe, which means the value added activities in which both Chinese and European companies can enter, but avoid for the moment.
- An evaluation of the distribution of gains of every product sold to final users, among different actors and different companies that engage in value-added activities of it.
- A description of coordination linkages among different actors along value chain.
- A summary description of labor conditions of each actor along the value chain.
- An evaluation of sustainability of different forms of value chain as industrial solution of modern production. For this purpose we used the diagnostic method of productive effectiveness developed by Ruffier (1996, 2006, 2008).

We interviewed textiles clusters authorities and scientists. We discuss with textile professional worldwide (EC authorities, Chinese, French, North Africa and Latin American bosses. We interviewed distributors (Carrefour, Decathlon, traders...)

#### How the Chinese industry of clothing (apparel) became a threat to the industries of clothing from the World

The clothing industry has played an important role in the industrial take-off of China and in securing a very positive trade balance. Guangdong probably developed the fastest in China.

This development is due to private initiatives, due to men who are engaged in business. These people in general created their factories by themselves and have devoted a large part of their gains to make them profitable. It is no secret for anyone that local industry is not very profitable; it is much better to invest their money in real estate, which ensures good incomes with little effort than in industry, which requires from the employers an investment of all of their energy for a level of profitability that is generally rather smaller. Furthermore, this is not specific to Guangdong; the factories of developing countries generally have very small profit margins. Private industrialists there exploit their workers but at the same time have a plan, often to become the largest firm of their sector.

I note that few specialists are interested in the question of profitability of investment in the industry of developing countries. It is much better to invest in the industry of industrialized countries, the profit margins there are much higher, and normal investors do not turn toward the industry of developing countries. If they did do it, the question of industrial development would be resolved. It may be c

capitalist viewpoint, these industrialists of development make a bad calculation. Their underlying motivations must be questioned, because strong motivations are needed to embark on primitive industrialization.

A characteristic common to a number of private employers of Guangdong is surprising to the analyst who supposes that it was necessary to have evident assets in order to succeed: most of them have not done complete secondary studies. But, actually, it is the contrary that should surprise. To be a member of the Communist Party or to take a complete secondary cycle, in China of the seventies, that meant people received a training fulfilling respect for public planning more than adaptation to the market. In some way, the envelope that was given to secondary students, as to members of the Party, did not familiarize them with the hard laws of the market. Private employers having escaped this conditioning were able to develop aptitudes and opinions more adapted to ownership activities than those that stem from a formatting by the Party. Being an owner is to claim for himself most of the value created by this employees' work. This is not to defend a just distribution among all of the workers. If the owner is Communist, he has little chance to succeed in establishing capital. And he cannot count on the heritage, since everyone was poor in 1980. Nor can he count on the financial system since it is reserved for public enterprises, or to those held by members of the ruling class. To progress, Chinese private employers had to act outside of socialist standards. They had everything to fear from a government that defends a philosophy opposed to theirs.

That is they acted by hiding themselves to the maximum. Having had to manage all alone, Chinese private employers learned on the job how to succeed in establishing commercial relations, a field in which they excel. They all show great aptitude in taking advantage of market opportunities. Commercial aptitude is probably one of the keys for the explanation of the industrial takeoff of the Delta. Chinese private industrialists are first of all people who have created business networks by relationships of trust between actors of production. In a world dominated by bureaucrats, they can only succeed if the essentials of their activity escape their control. This is why they are adept in verbal promises more than in written commitment, in secret accounting more than analytic accounting. Actually, their success is not based on techniques learned in school but more indeed on the school of life, brawls and shrewdness.

Guangdong has been in advance of the rest of China for more than thirty years (Vogel, 1989). This gives it an attractiveness for all qualified personnel who imagine that the opportunities are greater there than elsewhere. Therefore, private entrepreneurs have hardly any trouble in finding graduates if they have need of them. They find them, at least they find sufficiently qualified persons to make their rather rudimentary equipment work and disassemble and copy the competition's products.



In a work written in 1999, Wang analyzes the operation of the private sector. Wang considers that the bureaucracy would assign a position of expedient to the private sector. He stresses correctly as to the proliferation of administrative agencies, regulations and licenses that are the common lot of the management of the market economy and the private sector in China today. The state enterprises have access to loans in a royal manner; they have the monopoly of exports, which requires private enterprises to enter into dependent relationships with them. Sovereign predators, the foreign trade companies take the very profitable differences that exist between international prices and domestic prices, while the private firms can only profit from minor price differences within China. Actually, everything is happening as if the government was developing a capitalist economy without authorizing the growth of a true industrial bourgeoisie. If it is known that the workers do not have the right to freely choose their unions, it is forgotten that private employers simply do not have the right to belong to an association. They may not establish lobbies that would negotiate with the government. Most of bosses associations belong to Communist Party. Those that do not depend on the Communist Party are either mutual associations between patterns from the same region (organizations that are more or less secret), or they are organizations that seem to have as its object the training of their members.

From reading Porter, the Chinese authorities gave the State the function of assuring establishment of competition among private enterprises. And in fact, as soon as a private owner succeeds in gaining a market, the authorities facilitate the installation of competitors just next to him who are going to copy the innovator, make his margins decline and at the same time are going to increase the volume of production while lowering the prices of the products. The State will also construct immense specialized markets, which will become convenient places to find the best prices since all of the domestic producers will be strongly encouraged to come to propose their products in their competitors' milieu. This strategy explicitly aims to fight unemployment. It also aims to increase China's power in the world.

But if the State has the means to think of an advanced strategy, it takes away from private enterprises the possibility of investing, by forbidding them from really earning much money. Here is one of the reasons that explain that, despite the very great industrial growth of the region of the Pearl River delta, salaries have not grown greatly, with the notable exception of those of specialists who are lacking and can thus sell themselves at very high prices. In his strategic works, Michael Porter (1999) gives keys to enterprises that attempt to fight against the entry into competition. This strategy is opposed to the imitation of the others and to benchmarking. Actually, if the firms seek to imitate another firm, they position themselves as behind the first, which already puts them in difficulty. Furthermore, if they come to compete with the imitated firm, they can only do it by reducing the commercial margins and therefore their profit. It is by focusing themselves on what is most appropriate for their firms that productive niches can be found where it would be difficult to t



the inverse strategy from the one the most of the Guangdong private factories are pushed to. Copying is permitted to them, facilitated by proximity and the impossibility for the entrepreneurs to group together in order to make their own law. By forbidding any grouping of private entrepreneurs, the Chinese system has maintained the bourgeois class in the bureaucrats' shadow.

We will now enter into the analysis of current strategies of Chinese clothing enterprises. In fact, we can classify the companies according to their size, the percentage of their export activity, their ability to design, control of marketing (existence of a network of dedicated sales, use of advertising, etc). This simple typology can separate companies that are doing well from those who are now in difficulty. Start with them: the Chinese clothing with the greatest difficulties today are the big factories whose business was more than 80% devoted to export. These companies are paradoxically those who have worn the industrial take-off. Trying to understand what happens to them. In fact, these companies operate on the mode of the OEM, i.e. it does not see their clothes, and they are pleased enough to produce according to customer instructions. This puts them in a situation of high dependency, and clearly unable to grasp the changes.

## **OEM Apparel Global Value Chain**

OEM is one of the best ways to enter the industry to export. Indeed, it requires very little initial knowledge. You must be able to operate a factory and to copy a product. But it is not necessary to know the final consumer. It is not necessary to have design ability since the client gives the design. Finally, it is not necessary to have financial capabilities, customers just hesitate little to advance raw materials, even make advance payments because it has good financial situation and knows that we obtain prices from actors who have no financial, or access to credit.

Against a very strong dependence on customers, new entrepreneurs who are engaged in the OEM have found many benefits. Their clients have learned the quality; they have often helped to overcome technical difficulties. As Chinese entrepreneurs of clothing are still some entrepreneurs from the first generation, they had no model of what a capitalist enterprise that works. They have to adapt and invent in many areas. Clients who told them exactly how and if they took away the requirements of the market were great opportunities for them. They were able to immediately position itself for export and at the same time they learned a lot in manufacturing.

Their clients were not philanthropists. They agreed to train Chinese companies because that is in accordance with their interest. They have not learned anything about design on the market. They have seen that the management of human relations was not very advanced, but have refrained from intervening in this area because they believed that fewer working conditions were good, were the best

customers did not want their Chinese suppliers to be their competitors. In a way, they have maintained in the dependency, not even ensure their continuity in the relationship. As a result, they have not warned Chinese suppliers when they started to find cheaper suppliers in neighbouring countries. They began to test these new suppliers and rocked violently and sometimes without notice. Even before the onset of the financial crisis of autumn 2008, we saw that the factories realized suddenly with very few orders.

For these plants the shock was all the harder they always seemed far too small, their clients were still commands the largest and suddenly fell silent. The workshops of these plants were already often deserted in summer 2008.

However, a number of experts were beginning to anticipate the crisis. We can prevent these sales from patrons of the fragility of their markets. Guangdong authorities were beginning to feel they have to change the model. After rather favoured the maintenance of low wages to increase local employment and foreign exchange reserves, they had said that factories and workshops OEM would eventually cause more harm than good. In the early 2000s, margins were still good and the authorities could rely on tax revenue. But with internal and external competition, declining margins and declining tax revenues as well. As a result, Guangdong began to wonder if it was so interesting that accommodate migrants from the interior of China, which could pose problems in case they lose their jobs. So a new social policy on the environment has been defined for Guangdong. Now it was announced that the Chinese laws on labour, social security contributions and the environment would not only be tightened, but that it would ensure compliance. The idea is that we would lose jobs, but force companies that will survive up to level.

Since Guangdong had an advantage over China in terms of industrialization, it would transform advance quantitative to qualitative advance.

The arrival of the financial crisis has only given a boost by the provincial authorities. The employment of migrants within China has deteriorated to the point of creating social unrest, forcing local authorities to be very pragmatic. Thus, municipalities have begun to pay themselves salaries for missing workers whose factories were bankrupt. They have finally turned a blind eye to the area of small shops, most of which do not respect the labour law. So that many workers have seen their wages decline sharply, that their boss has decided unilaterally lower. Or, more often, having lost their jobs, they find the work in the gray area that is in workshops that are half reported that do not pay any taxes, do labor laws and the environment. Failure to report allows authorities to choose to see or not these workshops. If the authorities want to close these workshops, it is sufficient that they are illegal. If they prefer that these workshops continue to operate, they may say they are not aware of their existence since they are not reported. Indeed, our field observations in Guangdong showed that in 2009, these small shops are rather more active than a year ago

margins are reduced and any small business entrepreneurs (10 to 50 employees) have often stated that they don't get rich but just to survive.

We understand better the situation of Chinese clothing OEM when analyzing the value chains in which they operate. For example, a pair of jeans manufactured in a Chinese factory that we were able to study in depth. The customer of the plant is a French brand that has provided the design and will market in the world. We were able to know or estimate with a margin of error acceptable to us the costs and benefits of each link in the chain that goes from the idea of making this jean to its purchase by an end user. We do not hold in the table that the gains (in some cases, the estimated margins employer is precisely from the estimated expenditure of corresponding link. We see here that what is paid 3.2 € for a Chinese factory is sold € 50 to European consumers (the final sale price is a little higher in the Chinese shops allowed).

### **Great brand relocating its production (if shown)**

#### **Distribution of gains jeans sold for 50 €**

Company	Function	Cost in €	Cumulating	Commentaries
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory boss	Margin boss	0,2	3.2	
French Brand	design	0,1	3.3	
	Boat	0,2	3.5	
	Customs	0,5	4	Less than 15%
Chinese State Plant	quotas	0 à 0,5		Next presence or not and depending on direct purchase or on the black market (estimate)
French Brand	Distribution	20	24	
French Brand	Market Research	5	29	
French Brand	Advertising	15	44	In fact the sale price is a function of the volume of advertising. Jeans can be sold with 75 € 40 € ad
French Brand	Margins	6	50	Estimation without warranty

The purchase price of cotton by Chinese manufacturers of jeans seems among the lowest in the world. The cost of manufacturing it is around three to four times lower than it would in France, but little lower than in Eastern Europe and

neighbouring countries such as Vietnam, Burma or Laos, significantly higher than in Central Africa. On the contrary, when margins are integrated in the business, China is becoming competitive in Africa and Eastern Europe. Indeed, one of the biggest surprises of this survey was that the Chinese management earnings were lower than those of employers in North Africa or South America. There is an acceptance for them to take the entrepreneurial risk for less gain than in most countries.

The design cost is small compared with each jean. That is to say that this is not the cost that precludes a Chinese design.

Transport costs and customs do not weigh heavily in the value chain. They could double that this does not alter the balance between manufacturers of jeans in different countries of the world. It must be said that jeans can pile up in large numbers in shipping containers. Quotas have a variable price because there was a market official and black market quotas in China. The Chinese office has a tendency to allocate quotas to enterprises, which have little command and therefore tend to sell directly or indirectly to private manufacturers. It seems that these are being lost.

Distribution costs are often reduced in the imagination of people who participate in value chains. Sell jeans, but fifteen times more than it costs to produce at a price. We need the jean looks fine in a shop in a neighbourhood expensive. Working time devoted to the sale is also much greater than that spent in the manufacture and this is also reflected in the price distribution.

Once all these costs taken into account, we realize it remains two important things to consider. The first is "market research". They are seeking what type of jeans buyers will want to buy. This includes surveys very costly since it requires the end customers, who are mainly in countries where labour is expensive. The last cost is that of advertising. It tends to be more than the expensive jeans are sold. One might even see a cause effect: there is more advertising, more consumers want to buy jeans and are willing to pay more for it. The advertising is probably the most risky; he reaches the amounts generally outside the scope of the grant of Chinese bosses. It is probably also the most profitable. It is the investment capacity, which structures the link of domination in the global value brand jeans. The large foreign trade derives most of its gains from its investments in advertising.

OEM bosses are aware that most of the market value of the product escapes them. They wonder how to increase their share of the value. We worked with the Chinese operator corresponding to this table. This is a realistic and inventive man who can count on if necessary political support. He tried everything to improve his situation. He sold surplus jeans products with the logo of the French company. It was very profitable but it was taken, he could lose at once all these customers. He also sold jeans with the same form but without logo. In this case, the prices he gets are more

interesting, but there may still be undetected by clients and so it has abandoned any work in this direction.

We have advised him rather to develop its own models in China and sell them in its own networks. He had already established its brand and open shops. But it failed to invest enough money in the transaction and the network has proved to be a financial shot for him. So he began to seek ways to sell directly abroad. With officials in his district and other contractors we have organized a mission of discovery in France in 2008 spring. We pushed the district and its patrons to invest together in a commercial office in France, but the bosses were not prepared to put together commercial means, they chose to embark on their own. From January 2009, most of their plants were stopped or became slow.

### **Selling inland**

Anyway, some enterprises developed inside China distribution networks and began to do some market studies in the not too far factories zone. That way, they have been able to make a design accepted by local costumer and make known their brand. These factories, if big enough, are not enduring any crisis effect, because the progressive extension of their distribution networks increases their selling.

Many observers have noted that the consumption of half-luxury took off in China. The time has come to sell more sophisticated products, more fun. The problem of Chinese bosses is their lack of notoriety, and notoriety, not create a link of loyalty with customers. Some have understood who worked on the notoriety from the immediate environment of their plant. Soon, they were able to make much higher margins than the OEM, and they used this money to gradually enlarge the area of their notoriety. Which have reached this level is doing very well. Their numbers increase through the action of certain local authorities. (Particularly Humen and Xiqiao, in Guangdong). Indeed, accumulating the money through income markets, some local authorities have started to work on marketing, working with market research, branding and design. Through such efforts, we can be optimistic about the fate of the Chinese industry of clothing. There is no doubt that despite a certain collapse of entrepreneurs who fail to work their markets, some areas are in the process of drawing the Chinese way of the future. They have already started to export in the border areas of southern China. We saw that it was not easy for local authorities to invest in marketing. A large proportion of managers were trained as an engineer. They see the progress as the result of better control of nature and the industrial. It is difficult to reflect consumer behavior.

### **Selling too far away**

There are currently developing a consumer market in China and a race to gain the knowledge and confidence of these new buyers. Foreign compar

heavily in market research and advertising in China. It is for them to take up before could not create a local competition to do the same market research and the same advertising campaigns. There is therefore a speed race. The industry of the Chinese clothing market is expected to invest and start to launch progress in foreign countries.

Economists tend to have a national vision for businesses, while businesses, even small, cannot even think in terms of national interest, but local and global opportunities. In fact, we started to go up and down value chains; there are much more varied situations they imagined at first. We said that the main difficulty to achieve capacity to generate investment in the clothing was to pay the entry ticket to fame. In this reasoning, it is cheaper to do nearby. But we may have a reputation locally and remotely. This is the case with this chino-Lebanese firm. The owners are Lebanese. They have always been in the clothing and had achieved certain notoriety in the Middle East. With the accumulated capital, they were able to explore other markets and a chance they would come in several supermarket chains in Spain where they are now known.

For some reasons we do not know, but we can imagine. These employers have decided to leave Lebanon, where they had their main production units. The loss of their largest plant has prompted employers to try their luck elsewhere: they landed in Canton. They quickly realized they would have no difficulty finding factories, which are capable of manufacturing the models they had in their cartons. Since they were small, they preferred an alliance with a Chinese manufacturer, rather than always seeking the cheapest price. To ensure the accuracy and reliability of their supplier, they just paid twice as much as the price maximum. Thus, they have reconstituted their productive force. They had their brands, their models, their markets (Middle East and Spain). All they lacked is their design capacity. They decided to create a design studio in Canton and had little difficulties in getting an Italian designer they knew. Their case seems very well. Let's see a value chain for oriental style apparel sold in Spain:

### **Lebanese selling small business in Spain and making the design in Canton**

#### **Distribution of earnings for a particular jean sold 50 €**

Company	Function	Cost in €	Cumulating	Commentaries
Chinese textile factory	Raw material	1	1	
Chinese sewing factory	Manufacturing costs	2	3	
Chinese factory owner	Owner margin	2	5.	
Lebanese design workshop	Design	0,1	5,1	Workshop belongs to Lebanese, designers are Italian.

	Boat	0,2	5,3	
	Customs	0,7	6	Less than 15%
Chinese State Plant	Quotas	0 à 0,5		Next presence or not and depending on direct purchase or on the black market (estimate)
Spanish Trader	Trader margin	2	8	Traders take a commission of 33% General
Spanish Supermarket	Distribution	20	28	
Lebanese Company	Market research	10	38	Most expansive in a outside country
Lebanese Company	Advertising	2	40	Advertising is done in the supermarket
French Brand	Margin	10	50	Estimation without warranty

Start to read the table from top to bottom. The Chinese manufacturer, it enjoyed exceptional prices for cotton. Manufacturing costs the same as for the previous example. As the price paid is double the previous, this gives the Chinese owner the margin more comfortable, we can hope that it will invest in improving its production. The costs of design transport and customs are the same as in the previous example. The Lebanese are working with a trader, which as usual takes a margin of one third of the cumulative cost to their level. We see the costs are those associated with market research and advertising. These costs remain affordable for employers of Lebanon; because their market research is limited to niche markets they know for a long time. Advertising is only done in supermarkets that sell products. The cost of marketing, reported to the product, is the same as that of the French brand, but volumes are much less consistent and remain within the reach of small business between Lebanon and China. Here the small company has managed a business niche. It maintains its market through major investments in market research.

## **Conclusion: who is winning and who is losing in Chinese apparel**

### **industry?**

**Chinese central government** was certainly the first winner. Around 50 to 70% of the jeans made in China are exported. The Chinese government banks cash in on the currencies and transform them into local currency. This power uses one part of the profits from growth to strengthen the country's industry: it buys huge quantities of foreign technologies, it develops the country's infrastructure, it finances a real industrial policy, it makes up for a major part of unfathomable deficits of government enterprises and it makes restructuring from public to private easier. Central and local governments now have financial means to attempt the transition fr



industry to an innovative industry. Indeed the relevance of some applied measures can be questioned. We do think that too much state money is dedicated to high technologies at the detriment of those which are now the most necessary to the progressive upgrade of Chinese industry. Chinese bosses are not able to compete with foreign brands because they lack money to do market studies and advertisement.

**Mingongs:** the workers also benefited from the Chinese industrial take-off. Not so much the government workers who have seen their relative position fall back and sometimes even their financial situation deteriorate when their company has been up against bankruptcy. Some of them continue to get an « iron rice bowl » that is a protected life supported by a company that ensures them bed, meals, hospital and school. But the real beneficiaries are the new workers, who have left the countryside for the cities. The figures are clear; the main part of the turnover of the factories has gone to pay the workers' wages. They are therefore the main beneficiaries. If we hesitate to concede to it, it's because their fate hardly appears enviable to us any longer. To make clothes, farmers can be hired, trained in a few weeks and given a sewing machine.

We interviewed many Chinese farm workers called Mingongs. They remind us a lot of the immigrant workers who have enabled the France to strengthen its economy after world war two. Mingongs don't work in a foreign country, but they still theoretically lack of required permits to work in cities whose language and numerous customs were unfamiliar to them. And nevertheless they came. They accept any jobs even with eight days of journey. Their fate does not seem enviable. But when they are asked if they want to return to their families inside their villages, they generally reply that they in fact wish to have their families come to the city. Actually it is enough to imagine life in their village to understand. The young people have deserted the country and the young who remain do not often find a lot of interest in remaining in villages with old, jobless, penniless people doomed with a bleak future. The city opens the doors to another younger, freer, richer and more attractive world.

One must not believe that the remote countryside gains as much from the urban take-off. Recent studies reveal that the migrant workers send money for about two years and afterwards they forget. The loss of jobs which mainly affects young migrants, that is to say those who last arrived, is an expression of today crisis. But older migrants can't be at rest either. They can either go back to their homeland, which many would rather avoid to do, or agree to be paid less. Governmental policies try to send them back to the countryside with social and fiscal advantages drawn to soften the shock. In fact, if the industrial growth slowed, the Chinese agricultural fourth world would take off.

**Western brands:** they are the big winners of outsourcing. When we split up the cost price of a pair of branded jeans, we see that less than 5% pays the Chinese make. The brands justify the prices paid by consumers for quality, i.e. less than

and for the design, which rarely represents more than 1% of the price paid by the consumer. In fact, western brands take advantage of the progress of industrialization that has lowered the manufacturing and marketing prices, creating a desire in buyers to buy more expensive products. As a matter of fact, the biggest expenses incurred by a western brand are for market studies and advertising campaigns. That's convenient for salaried employees who prefer to have these jobs rather than dressmaking, especially as more attractive incomes are offered for brand manufacturing than true jeans manufacturing. But these margins earned by western brands are going to be increasingly difficult to justify. They are mainly dependant on advertising. SAVIANO in a currently well-known book on the camorra of Naples shows that it succeeds in obtaining the best margins from apparel trafficking than cocaine trafficking. All it does is make good copies of branded apparel and sell them, without paying anything for the brands, but in shops that sell these brands, which it controls secretly.

We can close doing the round of winners of clothes globalization by having a thought for those who have not won it. The consumers are among them because they hardly gain from the progress of industrialization, or from the lowering of the production costs brought about by outsourcing. The salaried employees of the so-called middleman countries like Mexico, Turkey or Tunisia have terribly suffered from the rise in power of the Chinese competitors. They have seen their salaries come down and their factories close down.

**Private Chinese bosses:** It is quite interesting to look into the situation of private Chinese entrepreneurs of the garment industry. The Chinese industrial take-off owes them a lot. They have registered an exceptional growth from 1982 to 2007. They have often set off without any money, without any security, dragging into their adventure salaried employees exploited at will, and themselves working without rest to earn a lot less money than their counterparts from rich or middleman countries. First generation of capitalists, they had ideas or comportments that did not tally with the communist ideology, which was part of their entire childhood. They are rebels, deviants; most of them have already paid a heavy price for unconventional behaviours. For them the opening up was an opportunity to get out from the top: they were quasi delinquents, they become modern heroes. Then they had faltered before risks. A capital is not made legally in a socialist society. They have cheated, bought the complicity of civil servants, won over a maximum of friends to prevent jealousy from sending them to prison. They have accepted really low margins than in most of the other countries. It is a thing that we do not measure enough, with their Mercedes class E or S, the private Chinese bosses are often poor bosses. They are incapable of finding the required funds for a real modernization of their factories. They cannot launch good market studies. In other words, they don't stand a chance confronting western brands. They are small fry. And today they are encountering real difficulties. They are challenged by manufactures from Vietnam, Cambodia, Laos and indeed black Africa who manage to strike a lower price by paying the lowest salaries. They are overwhelmed by a new industrial policy of the central government that seeks to c

paying official salaries, social security contributions, anti-pollution equipment, reducing their already low margins accordingly.

The die is not cast for all that. Chinese producers could resume their development by trying to conquer the market next door and gradually set up Chinese brands there. We see some of them embarking on such a strategy successfully. If they re-conquer only the Chinese market, they will become the big ones capable of canvassing the western countries later. And then, western companies that only do marketing could endure worst times. How to control quality, innovate in high-return products if they no longer know how to do because they have long ago left these unprofitable operation to others? Today we see a direct relation between the sum attributed to a advertising campaign for clothes and the price that the consumer accepts to pay for such clothes. What will we do when consumers refuse to pay what André GORZ called the price of their alienation?

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